

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 H-02 PRS-01 AGRE-00 INT-05 FEAE-00 /114 W
-----121338Z 017321 /46

R 121036Z JAN 77
FM AMEMBASSY BERN
TO SECSTATE WASHDC 3745
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION GENEVA
USDEL MTN GENEVA
AMCONSUL ZURICH

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PASS TREASURY AND FRB

EO 11652: NA
TAGS: EFIN ECON SZ
SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK JAN 2-8

1. SUMMARY: SWISS NATIONAL BANK FOREIGN EXCHANGE MARKET
INTERVENTIONS HELPED DOLLAR RATE AGAINST SWISS FRANC
APPRECIATE SLIGHTLY DESPITE DOLLAR TENDENCY TO FLUCTUATE
DOWNWARD. GOLD PRICE DECLINED SLIGHTLY TO 133. CAPITAL
MARKET HIGHLY LIQUID; INTEREST RATES CONTINUE TO DECLINE.
FOREIGNERS BORROWED RECORD SF 15 BILLION ON SWISS CAPITAL
MARKET IN 1976. FEDERAL COUNCILOR BRUGGER LED SWISS
DELEGATION TO ECONOMIC TALKS WITH FRENCH IN PARIS. WHOLESALE
AND CONSUMER PRICE INDEXES ROSE 0.2 PERCENT IN DEC 1976.

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LARGEST 20 SWISS FIRMS REPORTED INCREASED OUTPUT
AND RECEIPTS IN 1976. CASES OF BANKRUPTCIES ROSE 7.7
PERCENT IN 1976. SWISSAIR'S 1976 GROSS EARNINGS
EXPECTED TO BE RECORD SF 220 MILLION. OVERNIGHT HOTEL
STAYS DECLINED ABOUT 4 PCT IN 1976 WHILE NET FOREIGN
EXCHANGE EARNINGS FROM TOURISM FELL SF 100 MILLION.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: FOREIGN EXCHANGE MARKET QUIET. DOLLAR RATE AGAINST SWISS FRANC SHOWED TENDENCY TO FLUCTUATE DOWNWARD IN EARLY WEEK. HOWEVER, SWISS NATIONAL BANK DOLLAR PURCHASES (REPORTEDLY \$500 MILLION DURING LAST 3 WEEKS) HELPED DOLLAR RATE CLOSE FRIDAY AT SF 2.46, UP FROM SF 2.44 MONDAY. SWISS PRESS COMMENTARY ATTRIBUTED DOLLAR WEAKNESS AND RATE FLUCTUATIONS TO TRADE DEFICIT, LOW INTEREST RATES AND UNCERTAIN ECONOMIC POLICY IN US. GERMAN MARK ALSO APPRECIATED SLIGHTLY AGAINST SWISS FRANC. POUND STERLING SHOWED STRENGTH FOLLOWING IMF LOAN TO UK. SIWSS COMMENTATORS SAID THAT SWITZERLAND, THOUGH NOT IN IMF, PARTICIPATED IN LOAN OUT OF CONCERN FOR INTERNATIONAL ECONOMIC AND FINANCIAL STABILITY. GOLD PRICE DECLINED SLIGHTLY IN MODERATE TURNOVER. RATES FOLLOW:

	1/3 (OPEN)	1/7 (CLOSE)
SPOT DOLLAR	2.4460	2.4635
FORWARD DISCOUNTS (PCT. P.A.)		
1 MONTH	4.23	4.29
2 MONTHS	3.69	4.02
3 MONTHS	3.42	3.70
6 MONTHS	3.20	3.49
12 MONTHS	3.03	3.21
SF/DM	103.77	104.12
GOLD	134.25	133.25

3. CAPITAL AND MONEY MARKETS: MARKETS HIGHLY LIQUID. CALL MONEY RATE REMAINED 0.25 PERCENT. AVERAGE YIELD CONFEDERATION UNCLASSIFIED

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BONDS DROPPED FROM 5 PCT TO 4.19. INVESTORS SEEKING HIGHER YIELDS HAVE TURNED FROM BONDS TO STOCKS, CAUSING MOST STOCK PRICES TO SHOW STRONG GAINS; SKA INDEX (1959 - 100) 228.8 JAN 6, HIGHEST LEVEL IN NEARLY 3 YEARS. INSUFFICIENT DEMAND HAS CAUSED POSTPONEMENT PLANNED SF 500 MILLION CONFEDERATION BORROWING THAT WAS SCHEDULED FOR JAN 19-25, THOUGH SOME BANK SOURCES BELIEVE GOVT WAITING TO SEE IF INTEREST RATES DECLINE FURTHER. LARGEST BANKS HAVE AGREED LOWER INTEREST RATES ON 3-12 MONTH TIME DEPOSITS AND THEIR CASH BONDS ABOUT 0.25 PCT EFFECTIVE JAN 11.

4. FOREIGN BORROWING: PRESS REPORTED TOTAL BORROWINGS BY FOREIGN FIRMS AND INSTITUTIONS ON SWISS CAPITAL MARKET IN 1976 REACHED RECORD SF 15 BILLION, COMPARED SF 12 BILLION IN 1975. NEARLY SF 10 BILLION WAS ACCOUNTED FOR BY PRIVATE PLACEMENTS OF MEDIUM-TERM NOTES, COMPARED TO SF 7.6 BILLION IN 1976. FOREIGN BOND ISSUES OFFERED FOR PUBLIC

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PASS TREASURY AND FRB

SUBSCRIPTION WERE SF 3.2 BILLION, UP FROM SF 2.36 BILLION
IN 1975. BANK CREDITS TO FOREIGN INSTITUTIONS CAME TO
ABOUT SF 2 BILLION, DOWN FROM SF 2.4 BILLION IN 1975.
NONRESIDENT BORROWING IS EXPECTED TO CONTINUE AT HIGH RATE IN
FIRST QTR 1977. SNB HAS RAISED 2-MONTH CEILING ON
FOREIGN BORROWINGS FOR JAN/FEB 77 FROM SF 460
MILLION TO SF 500 MILLION. BORROWINGS BY OFFICIAL DEVELOP-
MENT ORGANIZATIONS SUCH AS WORLD BANK ARE NOT COUNTED AGAINST
THE CEILING. SOME 13 FRENCH REGIONAL DEVELOPMENT
COMPANIES ARE JOINTLY FLOATING LOAN OF TOTAL SF 80
MILLION WITH 5.5 PCT INTEREST FOR 15 YEARS, ISSUE
AT 99 PCT PAR, GUARANTEED BY FRENCH GOVT,
REPORTEDLY AS PART OF BARRE PLAN TO HELP FRENCH ENTERPRISES
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OBTAIN FOREIGN EXCHANGE. SNB FAVORS LARGE CAPITAL EXPORTS WHICH HELP ABSORB SOME LIQUIDITY WITHOUT AFFECTING INTEREST RATES. CAPITAL EXPORTS ARE REQUIRED TO BE CONVERTED INTO DOLLARS AT SNB THUS ENABLING SNB TO INTERVENE FOREIGN ON EXCHANGE MARKET TO RESTRAIN FRANC APPRECIATION.

ECONOMIC

5. TAKS WITH FRENCH: SWISS DELEGATION LED BY FEDERAL COUNCILOR BRUGGER VISITED PARIS FOR TALKS WITH FOREIGN TRADE MINISTER ROSSI ON CIEC, GATT AND UNCTAD NEGOTIATIONS, SWISS RELATIONS WITH EC AND EFTA, AND BILATERAL ISSUES. COMMUNIQUE STRESSED SIMILARITY OF VIEWS ON TOPICS DISCUSSED, PARTICULARLY THAT ECONOMIC GROWTH DEPENDS ON CONTROLLING INFLATION, AND EMPHASIZED SIZE OF BILATERAL TRADE WHICH NECESSITATES COORDINATED POLICIES. PRESS REPORTED AGREEMENT THAT SWISS APPLY SAME DUTY ON BOTTLED FRENCH WINE IMPORTS AS ON OTHER FOREIGN WINE. SWISSPHARMACEUTICAL FIRMS IN FRANCE TO BE SUBJECT OF FUTURE TALKS. MINISTER ROSSI EXPECTED VISIT SWITZERLAND IN SPRING 1977.

6. PRICES: END DEC 1976 WHOLESALE PRICE INDEX (1973 EQUALS 100) WAS 147.6 UP 0.2 PCT FROM NOV AND 1.2 PCT ABOVE END 1975, COMPARED TO YEAR-TO-YEAR INCREASE OF 1 PCT IN NOV 1976 AND 4.9 PERCENT DECLINE IN DEC 1975. INDEX RISE LED BY RAW MATERIALS AND SEMI-PROCESSED PRODUCTS, FOOD AND TEXTILES WHILE METALS DECLINED. CONSUMER PRICE INDEX (1966 - 100) ALSO ROSE 0.2 PERCENT IN DEC 1976 TO 167.1 CLOSING THE YEAR 1.2 PCT ABOVE END 1975. PRICE INCREASED LED BY HEATING OIL, FOOD COMMODITIES AND CLOTHING WHILE TRANSPORTATION COSTS DECLINED.

7. BUSINESS 1976. OUTPUT AND RECEIPTS OF 20 LARGEST SWISS CORPORATIONS REPORTEDLY INCREASED DURING 1976. 11 FIRMS ARE EXPECTED TO REPORT INCREASED CASH FLOWS WHILE REMAINDER UNCLASSIFIED

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PERFORMED AT 1975 LEVEL OR DECLINED. MOST OF THE TOP 20 COMPANIES HAVE SIZABLE SALES ABROAD AND APPARENTLY HELD THEIR OWN ON FOREIGN MARKETS; MOST PAID DIVIDENDS AT 1975 LEVEL OR SLIGHTLY HIGHER.

8. SWISSAIR: SWISSAIR COMPANY'S GROSS 1976 EARNINGS ARE EXPECTED TO EXCEED RECORD SF 220 MILLION IN 1974. STOCK MARKET SOURCES SPECULATE THAT SWISSAIR WILL RAISE ITS DIVIDEND TO SF 30, UP FROM SF 20 IN 1975 WHEN GROSS RECEIPTS FELL TO SF 195 MILLION.

9. BANKRUPTCIES: SOME 1,064 CASES OF BANKRUPTCY WERE FILED

IN 1976 UP 7.7PCT FROM 982 IN 1975.

10. HOTELS AND TOURISM: OVERNIGHT HOTEL STAYS DECLINED 4
PCT IN 1976 COMPARED TO 1975, BUT ONLY 2 PCT IF
LEASING OF PRIVATE ROOMS AND APARTMENTS IS INCLUDED.
GOVT ESTIMATES TOTAL GROSS 1976 FOREIGN
EXCHANGE EARNINGS FROM TOURISM AT SF 5.25 BILLION, OR NET
SF 2.5 BILLION, DOWN SF 100 MILLION FROM 1975. SWISS
HOTEL ASSOCIATION PRESIDENT CALLED FOR CREATION OF QUOTE
TOURISTIC FRANC UNQTE IF SWISS FRANC SHOWS FURTHER
RAPID APPRECIATION.
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